

## Message Text

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PAGE 01 LONDON 04007 150545Z

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 INR-05 EB-03 OES-02 L-01 SP-01

PRS-01 /036 W

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R 141626Z MAR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9306

INFO: ZEN/AMCONSUL EDINBURGH (BY POUCH)

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L LONDON 4007

LIMDIS

E.O. 11652: GDS

RAGS: ENRG, UK

SUBJECT: HAROLD LEVER ON NORTH SEA OIL PARTICIPATION

SUMMARY: HAROLD LEVER TOLD AMBASSADOR HE WAS ATTEMPTING TO SATISFY POLITICAL REQUIREMENT OF PARTICIPATION BY MEANS OF ESSENTIALLY SYMBOLIC AGREEMENTS WHICH WOULD ENGAGE HONOR OF FUTURE BRITISH LABOR GOVERNMENTS OVER LONG TERM. LEVER ACKNOWLEDGED THAT, SUBJECT TO CABINET APPROVAL, HE WOULD PROPOSE TO LARGER COMPANIES WILLING AND ABLE TO FUND 100 PERCENT OF THEIR NORTH SEA DEVELOPMENT EXPENDITURES AN ARRANGEMENT EMBODYING A "WASH" FINANCIAL TRANSACTION WHICH IN EFFECT GAVE HMG NO MORE IN SUBSTANCE THAN A CONTINGENT OPTION TO PURCHASE 51 PERCENT PARTICIPATION OIL AT PREVAILING MARKET PRICE UPON EXPIRATION OF LONG-TERM AGREEMENT. LEVER ALSO VOLUNTEERED HE WOULD BE WILLING TO DELAY PARTICIPATION NEGOTIATIONS WITH US MAJORS UNTIL AFTER WORKING OUT MODEL ARRANGEMENTS WITH DP, BURMAH, AND SMALL "TIDDLERS". END SUMMARY

1. AT MARCH 12 LUNCH WITH AMBASSADOR AND OTHER EMBASSY OFFICERS, HAROLD LEVER REVIEWED THIS LATEST THINKING ON POLITICS, SUBSTANCE AND TIMING OF NORTH SEA PARTICIPATION.

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PAGE 02 LONDON 04007 150545Z

2. FROM A POLITICAL STANDPOINT, LEVER STRESSED ONCE AGAIN IMPORTANCE OF COMPLYING WITH LABOR PARTY MANIFESTO WHICH CALLS FOR MAJORITY STATE PARTICIPATION. HE READILY ACKNOWLEDGED THAT WITH OR WITHOUT PARTICIPATION HMG COULD EXERT NECESSARY DEGREE OF CONTROL OVER COMPANY OPERATIONS, PRODUCTION LEVELS AND INVESTMENTS BY NORMAL EXERCISE OF ITS SOVEREIGN POWERS, AND THAT GOVERNMENT FINANCIAL "TAKE" WOULD COME ENTIRELY FROM ROYALTIES AND TAXATION. LEVER OBSERVED THAT TOUGHEST PART OF HIS JOB WAS TO BRING HIS COLLEAGUES TO ACCEPT AND OIL COMPANIES TO UNDERSTAND THESE POINTS. WHAT HMG WILL BE AFFORDED BY PARTICIPATION WILL BE APPEARANCE OF CONTROL OVER DISPOSITION OF 51 PERCENT OF OIL; IN REALITY WHAT GOVERNMENT WILL HAVE IS A CONTINGENT OPTION AFTER A GIVEN PERIOD TO OBTAIN ITS 51 PERCENT SHARE OF OIL AT MARKET PRICE. LEVER OBSERVED AMBASSADOR WAS CORRECT IN SAYING THRUST OF LEVER'S APPROACH SEEMED TO BE TO ENGAGE THE HONOR OF A BRITISH LABOR GOVERNMENT IN LONG-TERM AGREEMENT SO THAT BOTH BRITAIN AND COMPANIES COULD BENEFIT FROM STIMULATION AND STABILITY THIS WOULD BRING TO NORTH SEA DEVELOPMENT.

3. ON SUBSTANCE, LEVER SAID THAT FOR COMPANIES WANTING OR NEEDING HMG FINANCING, AS PREVIOUSLY ENVISAGED, GOVERNMENT WOULD FUND ITS 51 PERCENT SHARE OF FUTURE EXPENDITURES. IN RETURN, HMG WOULD RECEIVE WHAT AMOUNTED TO INTEREST ON VALUE OF ITS FINANCIAL INPUT EQUAL TO WHAT A PARTICULAR COMPANY WOULD OTHERWISE HAVE HAD TO PAY, ALTHOUGH IT MIGHT NOT BE LABELED ACCORDINGLY IN PUBLIC.

4. FOR LARGER, MORE FINANCIALLY SOLID COMPANIES WHICH PREFER TO FUND 100 PERCENT OF DEVELOPMENT COSTS, LEVER READILY ACKNOWLEDGED THAT, SUBJECT TO FORMAL APPROVAL OF HIS CABINET COLLEAGUES OF WHICH HE IS CONFIDENT, HE WOULD PROPOSE A SOMEWHAT DIFFERENT ARRANGEMENT. IN THESE CASES THERE MIGHT BE SIMPLY A SYMBOLIC PAPER TRANSFER OF LEGAL TITLE TO GOVERNMENT (BRITISH NATIONAL OIL COMPANY) OF 51 PERCENT OF OIL PRODUCED. SUCH PARTICIPATION OIL WOULD, AS A PRACTICAL MATTER, BE RETURNED TO COMPANY PURSUANT TO LONG-TERM AGREEMENT WITH NO FINANCIAL CONSEQUENCES WHATSOEVER (PRESUMABLY THIS MEANS BOOKKEEPING CONFIDENTIAL

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PAGE 03 LONDON 04007 150545Z

"SALE" AND "BUY BACK" TRANSACTIONS WOULD TAKE PLACE AT COST). ON EXPIRATION OF AGREEMENT, GOVERNMENT WOULD HAVE OPTION TO PURCHASE PARTICIPATION OIL AT PREVAILING MARKET PRICE IN ORDER TO REFINER FOR ITS OWN ACCOUNT OR OTHERWISE DISPOSE OF IT. LEVER SPECULATED THAT AS A MATTER BNOC WILL PROBABLY EVEN THEN NOT REQUIRE MORE THAN ROYALTY OIL TO SATISFY ITS REQUIREMENTS.

5. LEVER REITERATED HIS VIEW THAT COMPANIES HAVE NO REAL CAUSE FOR CONCERN ABOUT LOSS OF CONTROL OVER OPERATIONS OR INVESTMENT. IN UNLIKELY EVENT COMPANIES AND GOVERNMENT DISAGREE AS TO APPROPRIATE RATE OF EXPLORATION OR DEVELOPMENT, GOVERNMENT HAS ADEQUATE SOVEREIGN POWERS, WITH OR WITHOUT PARTICIPATION, TO ENSURE ITS VIEWS ARE TAKEN INTO ACCOUNT. HE DISMISSED POSSIBILITY OF SERIOUS DISPUTE ON THIS POINT IN CONTEXT OF PARTICIPATION.

6. ON TIMING, LEVER VOLUNTEERED THAT HE WOULD BE WILLING TO DELAY PARTICIPATION NEGOTIATIONS WITH US MAJORS UNTIL HE HAS WORKED OUT ARRANGEMENTS WITH BP, BURMAH AND SMALL "TIDDLERS" WHO ARE NOT REALLY INTERESTED IN OIL BUSINESS. HE ACKNOWLEDGED THAT 51 PERCENT INTEREST IN THESE HOLDINGS, TOGETHER WITH THOSE OF NATIONAL COAL BOARD AND BRITISH GAS CORPORATION, WOULD ENABLE GOVERNMENT TO CLAIM PERHAPS 35 TO 40 PERCENT PARTICIPATION IN EXISTING COMMERCIAL FIELDS. LEVER MADE CLEAR, HOWEVER, THAT EVENTUALLY HE WOULD HAVE TO SEEK SOME ARRANGEMENTS WITH US MAJORS MODELED AFTER BP AND OTHER ARRANGEMENTS. FYI: LEVER SINGLED OUT OCCIDENTAL AS ONE US COMPANY WITH WHICH HE SHOULD HAVE LITTLE DIFFICULTY IN COMING TO AN AGREEMENT. END FYI  
RICHARDSON

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## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM, NORTH SEA, RESEARCH & DEVELOPMENT AGREEMENTS, SUBSIDIES, NEGOTIATIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 14 MAR 1975  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** ElyME  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
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**Original Previous Classification:** n/a  
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**Previous Channel Indicators:** n/a  
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**Previous Handling Restrictions:** LIMDIS  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** ElyME  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 16 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <16 APR 2003 by ShawDG>; APPROVED <22 SEP 2003 by ElyME>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** HAROLD LEVER ON NORTH SEA OIL PARTICIPATION SUMMARY: HAROLD LEVER TOLD AMBASSADOR HE WAS ATTEMPTING  
**TAGS:** ENRG, UK, (LEVER, HAROLD)  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006